

Consumption Risk and Expected Futures Returns

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Abstract

Following recent research on consumption-based asset pricing, we find that the Consumption CAPM explains up to 60 percent of the cross sectional variation in mean futures returns. The conditional version of the consumption model performs best at the quarterly horizon and outperforms both the CAPM and the Fama-French three-factor model. We show that expected futures returns can be measured by the futures' yields and that the consumption model, next to explaining mean returns, is also best at explaining the cross sectional variation in mean yields. Unlike for stock returns, ultimate consumption (i.e., contemporaneous plus future consumption) leads to lower performance of the consumption model. We show that demand and supply changes lead short run consumption risk to be important for commodities, but not long run consumption risk.

JEL classification: G12 and G13

Keywords: futures, consumption CAPM, ultimate consumption risk

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